MEETING DATE: November 19, 2003

SUBJECT: 2004-2008 Capital Program and 10-Year Capital Forecast

RECOMMENDATION

It is recommended that the Commission:

1. Approve the 2004-2008 Capital Program in the amount of $2.3 billion as described in this report and the following accompanying documents:

- TTC 2004-2008 Capital Program Overview
- TTC 2004-2008 Capital Program (Blue Books)

1. Approve the 10-Year Capital Forecast in the amount of $4.0 billion as shown in this report;
2. Consider this report in concert with the following:

a. the 2004 TTC Operating Budget
b. the 2004 Wheel-Trans Operating Budget
c. the 2004 Departmental Goals and Objectives
d. the 2004 Organization Charts
e. the booklet entitled "Government Decisions Required this Council Term"

1. Forward this report to the City of Toronto for Council approval of the 2004-2008 Capital Program and approval of the 10 year forecast;
2. Forward this report to the Province of Ontario for confirmation of funding eligibility of the projects contained within the 2004-2008 Capital Program and 10-Year Capital Forecast;
3. Forward this report to the Government of Canada for confirmation of funding eligibility of the projects contained within the 2004-2008 Capital Program and 10-Year Capital Forecast.

REPORT OVERVIEW

The TTC's 2004-2008 Capital Program is described in detail in the following:

- The Commission report that provides a discussion of the major policy issues.

- The accompanying document entitled "TTC 2004-2008 Capital Program Overview", which provides a comprehensive overview of the budget, highlights key changes from last year, and discusses funding issues and the operating impacts of the programs.

- The "Blue Books", which describe every project in detail, including project justifications.

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BUDGET CONTEXT

Following is a brief synopsis of two recent periods in TTC history.

1970's and 1980's

During the 1970's and 1980's the population of the City of Toronto grew by 9%. In those same two decades, TTC ridership grew from 275 million riders in 1970 to almost 465 million – a 70% increase. This represented a significant shift in reliance from the personal automobile to public transit usage.

How did we achieve this? Simply put – continuous investment in transit capacity and expansion. The Yonge Subway Line was extended north, the Bloor/Danforth Line went further east and west and, the Spadina Subway and Scarborough RT Lines were built. In addition, we made a significant investment in revenue vehicles: subway cars (400 cars purchased), streetcars (196 CLRVs and 52 ALRVs), SRT cars (28) and a 70% increase in the size of the bus fleet. We proved for two full decades that predictable long-term funding, fare increases in line with inflation and steady expansion of the system will result in large shifts of commuters from the automobile to public transit.

1990's

Now let's look at the 1990's. The recession hit. By 1996, City of Toronto employment had fallen by almost 15%. TTC operating subsidies were cut in half in real terms. Fares were increased in real terms by about 50% over the rate of inflation. Large service cuts were made (reducing the bus fleet by 22% and closing two operating garages). As a result, ridership fell to 372 million in 1996 – over 90 million (or 20%) from the late

1980's highs. This is the classic transit downward spiral. Transit in Toronto was cheaper for governments, however, there was, and continues to be, a lot less of it.

The latter half of the 1990's was somewhat better than the first half. City of Toronto employment had recovered almost to pre-recession levels. However, TTC ridership has recovered less than half of what was lost. For the decade, City of Toronto population grew by 9%, yet TTC ridership was down by 11%. A significant contrast to the 1970's and 1980's.

Since the terrorist attacks on September 11, 2001, the TTC has had to deal with a very uncertain operating environment where many non-controllable events have impacted ridership. Labour strikes in 2002 (OPSEU, CUPE) and the SARS outbreak and hydro blackout in 2003 all had an immediate effect on ridership, but, will also continue to have some degree of impact on ridership in 2004. 2003 ridership is currently projected at about 404 million rides and the 2004 budget is projected at 410 million rides. Additional details on ridership are available in the 2004 Operating Budget report.

THE FUTURE

What does the future hold for the TTC? The City of Toronto's New Official Plan calls for an 18% growth in City of Toronto population by 2031, but virtually no new arterial road capacity is planned during this time. How will this happen? The TTC has a three-pronged plan to address this. It includes:

1. State-of-Good-Repair Budget
2. Ridership Growth Strategy
3. Subway Expansion Plan

Each of these components is discussed below.

(1) State-of-Good-Repair Budget

The State of Good Repair Budget as outlined in the 2004-2008 Capital Program and 10 Year Forecast is a planned approach to the reinvestment and rehabilitation of physical plant (the original Yonge-Subway will be 50 years old next year), as well as the replacement of revenue vehicles (rail cars have a useful life of 30 years, while buses have a useful life of 18 years). In addition, it is important to remember that the price of transit vehicles has increased significantly faster than the normal rate of inflation. For example, an H2 subway car cost about $165,000 in 1971. Assuming a normal rate of inflation, a subway car could cost about $800,000 in today's dollars. The recently completed order for T1 subway cars cost in excess of $2 million each. Approximately $4.0 billion in investment will be needed over the next 10 years for the base capital program as shown in Table 1.

TABLE 1

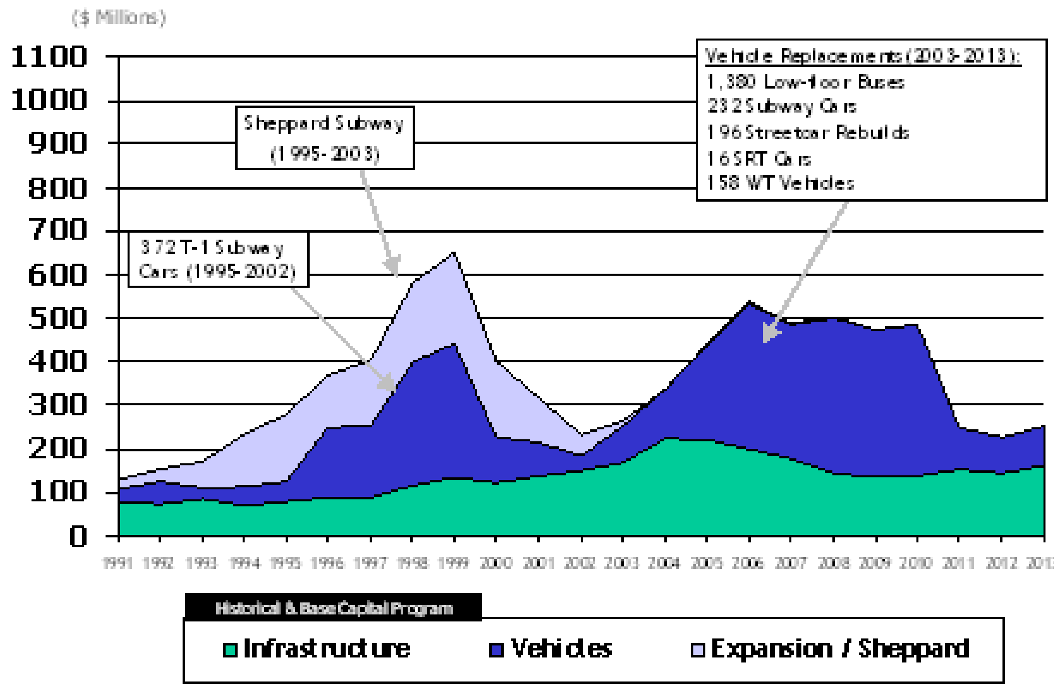
($MILLIONS)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2004-2013
Infrastructure	223	222	203	180	146	135	140	155	145	162	1,711
Vehicles	115	220	335	308	358	339	346	94	81	89	2,285
TOTAL	338	442	538	489	503	473	485	249	227	252	3,996

Figure 1 shows the expenditure profile for the Commission's State-of-Good-Repair program from 1991-2013.

Figure 1

EXPENDITURE PROFILE



<u>1991 TO 2013</u>

Expenditures for the next decade continue to be dominated by (i) the need to replace aging buses and subway cars, (ii) the need to rebuild and purchase additional streetcars and undertake almost $300 million in streetcar track rehabilitation, (iii) major structural rehabilitation of the Commission bridges, tunnels, buildings and structures, (iv) the need to expand the SRT fleet to accommodate increasing demand, and (v) the need to modernize the Commission IT assets. In addition, major projects such as the upgrade of fire ventilation equipment ($160 + million over the next 10 years) also need to be undertaken.

The $4.0 billion required over the next 10 years provides for no subway/SRT/streetcar rail system expansion – it is largely a status quo budget. The State-of-Good Repair Capital Program does not include any provision for the Ridership Growth Strategy or Subway Expansion Plan approved by the Commission. These items are discussed in the following sections and will only proceed when funding commitments are secured from senior levels of government.

(2) <u>Ridership Growth Strategy</u>

The Ridership Growth Strategy was approved by the Commission on March 19, 2003. It was prepared in response to efforts to increase ridership and to address anticipated population growth in the city over the next decade. The strategy supports The City of Toronto's Official Plan and details the most cost-effective ways of increasing transit ridership in the City, building on the existing transit system and operations. The strategy recommended a three-phased approach to investing in ridership growth that included both service improvements and fare incentives and was based on the principle that the recommendations were only to be implemented when current system funding requirements were satisfied and the system was maintained in a state of good repair.

The Ridership Growth Strategy provides a long-term staged program of investing in existing transit services and includes increased bus service, more transit priorities, SRT capacity improvements, streetcar lines rights-of-way and, construction of low cost bus rapid transit. This strategy will require a capital investment of about $640 million ($504 million over the next 10 years), over and above the TTC's base capital needs, and a corresponding $80 million in on-going annual operating costs. These initiatives are designed to improve existing services and will add upwards of 45 to 50 million new riders per year.

(3) Subway Expansion Plan

At its meeting of April 9, 2003, the Commission adopted a Subway Expansion Plan. This plan represents the next phase of investment beyond the Ridershp Growth Strategy initiatives. An investment in subway construction represents a long-term commitment to city-building and permanent high-quality transit services.

The Subway Expansion Plan confirmed the Commission's top priorities for future subway expansion as follows:

a. the Spadina Subway from Downsview Station to York University and Steeles Avenue. This project would commence in 2006 with implementation anticipated to take 7 years at an estimated cost of $1.4 billion.
b. The Sheppard Subway from Don Mills Station to Scarborough City Centre. This project would commence in 2011 with implementation anticipated to take 9 years at an estimated cost of $2.3 billion.

While these projects are largely proceeding one after another (there is some overlap as Spadina nears completion and Sheppard work ramps up), the timing and order of construction may require adjustment. These two projects will require approximately $1.9 billion in capital investment during the next 10 years – over and above the TTC's base capital needs.

In addition to the Base Capital Program (State-of-Good-Repair Budget), the Ridership Growth Strategy and the Subway Expansion Plan, at least two other "below the line" projects are identified in Table 2. Specifically, accessibility improvements to install elevators at 41 additional subway locations are identified under Easier Access Phase III at a cost of $230 million ($119 million in the next 10 years). (As well, about $1 million has been included to implement remote metering systems to allow for improved monitoring of hydro consumption with a view to realizing hydro cost savings.) Finally, $79 million has been identified as part of the Toronto Waterfront Revitalization Corporation (TWRC) initiatives which would provide for the installation of a new platform at Union Station. Conceptual design has commenced on this project and all costs are to be covered by TWRC which is funded by all three levels of government.

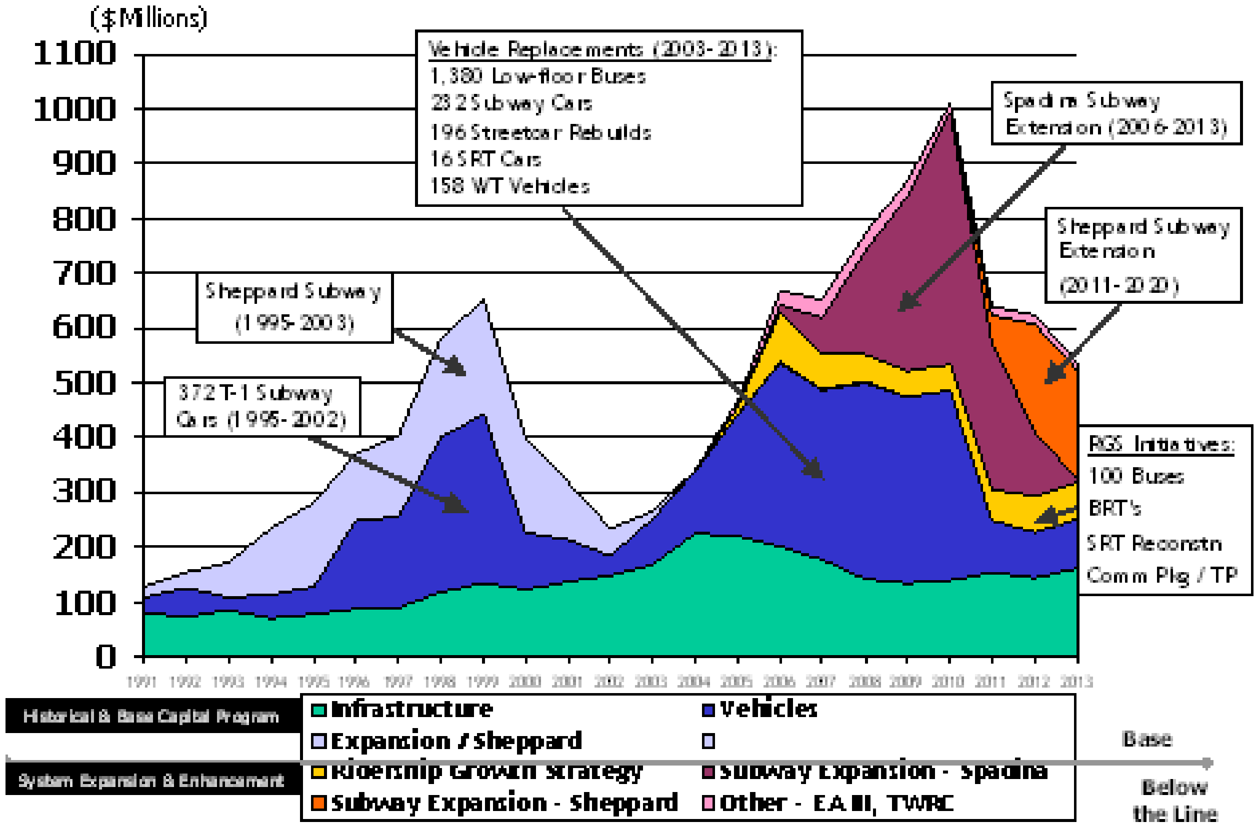
Table 2

Base Capital Program + Expansion 2004 TO 2013

Category ($ millions)	2004	2005	2006	2007	2008	2004 TO 2008	2004 TO 2013
Base Capital Program	*338*	*442*	*538*	*489*	*503*	*2,310*	*3,996*
Other Recommended – Pending Funding Approval:							
Ridership Growth Strategy	1	13	91	65	48	218	504
Subway Expansion – Spadina & then Sheppard			13	66	187	266	1,882
Accessibility, Other		3	9	13	15	40	120
Waterfront Initiatives (TWRC) – Union Station	3	8	18	19	19	67	79
Total - All Projects	*342*	*465*	*669*	*652*	*773*	*2,900*	*6,581*

In total, these additional programs, for which funding is not yet available, would require an investment of a further $2.6 billion over the next 10 years – on top of the Commission's base capital program requirement of $4.0 billion during the same time frame. The expenditure profile for these investments is shown in Figure 2 below.

Figure 2



BUDGET PRIORITIES

The Commission's capital budget priorities remain:

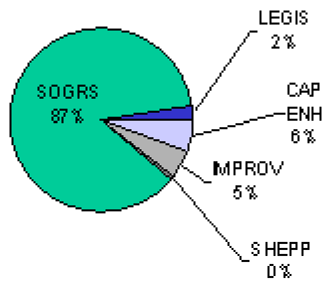
1. State-of-Good-Repair and Safety
2. Legislative
3. Capacity Enhancement
4. Improvement
5. Expansion

Table 3 below provides dollars and a pie chart of budgeted expenditures for the base program over the next five years.

TABLE 3

BASE CAPITAL PROGRAM
Five Year Envelope
By Major Category
($ millions)

	04CP	
SOGRS	1,991	87%
Legislative	55	2%
Capacity Enhance.	132	6%
Improvement	121	5%
Sheppard	11	0%
Total	2,310	



As can be seen, almost 90% of the capital budget for the next five years is committed to State-of-Good-Repair/Safety projects.

In establishing these budgets, a life-cycle approach is used. Detailed system inventories of each class of capital asset are kept. Budgets are set to replace or rehabilitate assets based on condition assessments, engineering standards, legislative requirements or safety/environmental implications. Five and ten-year programs are developed: all designed to keep the estimated $9 billion in TTC Capital assets in proper working order. The companion report entitled "TTC 2004-2008 Capital Program Overview" and the Capital Program "Blue Books" describe each project in detail.

BUDGET COMPARISON

In looking at the Commission’s Base Capital Program, it is important to note that it is in large measure a "status quo" budget. Tables 4 and 5 illustrate this.

TABLE 4

($ Millions)

	2003	2004	2005	2006	2007	2003-2007
Approved	320	332	385	454	475	1,966
Proposed	265	338	442	538	489	2,072
Change	(55)	6	57	84	14	106
Greener Bus Fleet				27	25	52
Other Changes	(55)	6	57	57	(11)	54

Expenditures over the 5 year period from 2003 to 2007 are estimated to increase by $106 million compared to last year’s program. However, almost half of this increase is attributable to the addition of a diesel-hybrid premium on the next order of buses for delivery commencing in 2006. In addition, new requirements such as the Reserved Lanes on St. Clair and the Environmental Assessment – Spadina Subway Extension have added a further $10 million. The remainder of the change represents about a 2% increase ($44 million) on the balance of the program. Much of this increase relates to a reassessment of needs and priorities, and is based on more current information on costs and condition assessments for programs including Streetcars, Buses, Bus Garages and Fire Ventilation Upgrades, as well as cost increases based on refined estimates or scope for safety critical requirements. 2004 costs are $6 million higher, predominantly as a result of slippage from 2003.

Table 5 highlights the specific cash flows for the period 2008 to 2012 and the totals for the 10-year period 2003 to 2012.

TABLE 5

($ Millions)

	2008	2009	2010	2011	2012	2008-2012	2003-2012
Approved	469	458	454	231	192	1,805	3,771
Proposed	503	473	485	249	227	1,938	4,010
Change	34	15	31	18	35	133	239
Greener Bus Fleet	16	16	16	7		55	107
Other Changes	18	(1)	15	11	35	78	132

As can be seen from the table, capital expenditures over the 10-year period 2003-2012 are increasing by $239 million. Over half of this increase relates to "greening" of the bus fleet through the inclusion of a hybrid bus premium ($107 million) and the bus overhaul program ($17 million). The balance represents an increase of about 3% on the existing program and includes: catching up on a back-log of roofing and on-grade paving, facility modifications, claims resolutions on Sheppard Subway, re-signalling of the Yonge Subway south of Bloor, and reserved streetcar lanes on St. Clair Avenue. Details of the specific changes are contained in the 2004-2008 Capital Program Overview.

FUNDING ISSUES

Capital funding available from government funding partners is of paramount importance in any transit capital budget. Transit capital budgets throughout the world are largely dependent upon direct capital funding from government. The TTC is no exception. It requires significant investment in transit infrastructure including vehicles that must be addressed through a predictable and sustained stream of funding year after year. This section describes possible funding sources for the TTC Capital Program.

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City Funding

The City of Toronto is responsible for funding 100% of the TTC's Capital Program. Historically, Provincial funding has reduced the City's contribution by as much as 75%; however, in recent years, limited funding has been available from the Provincial government. In addition, the TTC's depreciation charges form a nominal source of funding toward the Capital Program. Net City funding is financed as best determined by the City, most often through the issuance of long term debt instruments.

Several Provincial and Federal announcements have been made in recent months and funding programs are in various stages of being rolled out. The specific nature, level and duration of this transit funding support has yet to be confirmed. This funding, will, by virtue of the municipal act, flow through the City for TTC Capital needs.

Provincial, Federal and TTC Funding are discussed in the following sections.

Provincial Funding

Historically, the Province paid for up to 75% of net capital expenditures based on detailed eligibility criteria. On October 4, 1996, the TTC, Metro and the Province executed Capital Subsidy Agreements under which the Province agreed to pay $511 million towards the construction of the new Sheppard Subway and $915 million towards the TTC's State-of-Good-Repair Budget covering the period January 1, 1996 to December 31, 2000. Projects committed to at that time continued to receive 75% funding and new projects received the reduced 50% provincial subsidy.

On September 27, 2001, then Premier Mike Harris announced the Province would resume capital funding for transit projects, both for State-of-Good-Repair and expansion projects. The Ontario Transit Renewal Program will provide $1.1 billion over the next 10 years towards the state-of-good-repair portion of the budget. Cost sharing of certain inter-regional or advanced transit technology projects is to be provided through the Golden

Horseshoe Transit Investment Partnerships. Finally, the new Provincial government has indicated that it intends to make a 2 cent per litre gas tax commitment for transit.

Each of these elements is discussed below.

i. Ontario Transit Renewal Program (OTRP)

In October 2003, the Province paid $62.3 million under the OTRP towards the Commission's capital vehicle and infrastructure costs. Funding under this program is allocated Province-wide based on ridership – TTC carries 61% of Province-wide ridership and received 61% of OTRP funding. In January 2003, the Province announced a further $62.3 million under the OTRP for the Commission in 2003 – none of these funds have been received to date.

ii. Golden Horseshoe Transit Investment Partnerships (GTIP)

In August 2002 and on June 16, 2003, the Province announced GTIP funding for certain TTC projects with a total estimated cost of about $101 million. Of this amount, only $84.9 million is for projects included in the Commission's base capital program for which a one-third funding share of approximately $28.3 million will be provided under GTIP as follows: $10.7 million for 2002 and 2003, $9.1 million for 2004, $4.7 million for 2005 and, $3.8 million for 2006. To date, no funds have been received pending the execution of an agreement between the Province and the City. Details of the specific projects and cash flows are included in the 2004-2008 Capital Program Overview.

iii. Gas Tax

It is our understanding that the Provincial government intends to dedicate a 2 cent per litre gas tax to transit and this is to be over and above current commitments (i.e. OTRP and GTIP). A gas tax of 2 cents per litre will initially generate approximately $298 million per year. If this is apportioned on the basis of ridership (as is the case for OTRP funding), the TTC should receive 61% of the proceeds or about $182 million per year. If the tax is apportioned based on population, the TTC would only get about 22% of the proceeds or about $65 million per year. A population-based approach would result in:

- TTC getting 22% of the proceeds while carrying 61% of the rides
- GTA transits getting 41% of the proceeds while carrying 75% of the rides
- All other transit in Ontario getting 59% of the proceeds while carrying only 25% of the rides.

At this time, we have no knowledge about how this tax will be phased in.

Federal Funding

In April 2002, the Federal government announced $76 million funding for the TTC under the Canada-Ontario Infrastructure Program (COIP). Funding of $62.3 million was committed immediately to match the Ontario Transit Renewal Program allocation to the TTC and was received in December 2002. A further $13.7 million, to match the initial announcement of Provincial GTIP funding, is anticipated to be received in 2003.

In the Federal Budget of December 2001, the government announced the creation of the Canada Strategic Infrastructure Fund (CSIF) with a minimum federal contribution of $2 billion. In August 2002 the parameters of the CSIF were released. The Federal 2003 budget outlined an additional $2 billion funding under CSIF. The CSIF includes Local Transportation Infrastructure as one of the investment categories. This fund will contribute up to a maximum of 50% of total eligible costs for large-scale projects (at least $75 million) and the projects can involve any combination of funding with Provincial, Municipal and/or private partnerships. TTC and City staff have held discussion with both Provincial (Ministry of Transportation) and Federal (Transport Canada and Infrastructure Canada) representatives over the past several months. An application for CSIF funding has been submitted for the consideration of the Federal government. A summary of the components of the CSIF application is included in the 2004-2008 Capital Program Overview.

In addition, Paul Martin has talked about the New Deal for Cities and was quoted on September 25, 2003 at the annual Union of B.C. Municipalities convention saying "we are going to provide Canadian municipalities with a portion of the federal gas tax." That's good news for cities and for public transit. A share of the gas tax pro-rated based on ridership across Canada would constitute the kind of sustained, predictable, long-term funding needed for the TTC to try to replicate the successes of the 70's and 80's.

TTC Funding

The Capital Program is also partially funded through the TTC's Operating budget. Specifically, depreciation charges (budgeted at $16.9 million in 2004) which are based on amortizing the net cost (after capital subsidies) to the TTC of certain assets are charged against the TTC Operating Budget. They form a source of funding for certain capital programs such as, computers, non-revenue vehicles and shop equipment. It should be noted that the direct contribution to capital (budgeted at $11.8 million in 2002) has been eliminated in 2004.

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November 13, 2003

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Attachment: TTC 20042008 Capital Program Overview

TTC 2004-2008 Detailed Blue Books